

VZCZCXRO0515
PP RUEHAG RUEHAST RUEHDA RUEHDF RUEHFL RUEHIK RUEHKW RUEHLA RUEHLN
RUEHLZ RUEHPOD RUEHROV RUEHSR RUEHVK RUEHYG
DE RUEHVL #0928/01 3051725
ZNR UUUUU ZZH
P 311725Z OCT 08
FM AMEMBASSY VILNIUS
TO RUEHC/SECSTATE WASHDC PRIORITY 3015
INFO RUEHZL/EUROPEAN POLITICAL COLLECTIVE
RUEATRS/DEPT OF TREASURY WASHINGTON DC

UNCLAS SECTION 01 OF 02 VILNIUS 000928

SIPDIS
SENSITIVE
AMEMBASSY MINSK SENDS

E.O. 12958: N/A
TAGS: [EFIN](#) [ETRD](#) [PGOV](#) [PREL](#) [BO](#)
SUBJECT: BELARUS AND THE GLOBAL FINANCIAL CRISIS: FEELING THE
EFFECTS, BUT NOT ACTING TO MITIGATE THEM

Summary

1. (U) Until recently, the GOB voiced no concern regarding the global financial situation. However, as the crisis deepens and expands, and its negative effects become more visible in Belarus, the regime is looking for ways to limit the consequences while fundamentally maintaining its command economy methodology. End summary.

"Crisis? What crisis?"

2. (U) A month or two ago, most Belarusians, including many GOB officials, thought of the global financial crisis as nothing but a bad international news, with little to no relation to the Belarusian economy. Belarus' economic performance had been fairly sound, with the country's USD 5 billion plus gold and hard currency reserves growing steadily (according to official statistics).

3. (U) The first time Lukashenko mentioned the global financial crisis was in a speech to senior Belarusian KGB officers October 7. He admitted cautiously it can pose a threat to Belarus' exports but said that as the country has never traded its stocks internationally it has little to worry about. In the same speech, he lavishly praised his policy of tight government control in major sectors of the economy noting that the West and "even the Americans" would have to resort to the same methods.

Hitting home

4. (SBU) However, Belarus' major exports, including potassium fertilizers, oil products, tractors, and trucks shrank as traditional customers began to lack sufficient funding to purchase such goods in regular volumes. The stocks of unsold products are piling steadily. In turn, lower export revenues force many Belarusian businesses buy more hard currency in Belarus. The country's gold and hard currency reserves decreased in September by approximately 12 percent. (Local IFI staff report that Belarus is losing USD 20 million each day as they work to prop up the Belarusian ruble (BYR), fixed at a rate around BYR 2130:USD 1 for several years now.)

5. (U) Belarusian banks are experiencing difficulty trying to secure affordable loans from Western banks. Thus, bank loans have become more expensive to domestic consumers too. Belarusians are trying to stock up on hard currency cash, especially US dollars, to safeguard their savings. Press reports are noting the reappearance of black market currency traders as in Soviet times.

GOB attempts preventive measures

6. (U) Lukashenka paid a short-notice working visit to Russia to meet with President Dmitriy Medvedev October 25. Press reports

indicate that crisis-related issues were on top of their agenda. Lukashenka acknowledged that he needs Russia's "vision" and advice on efficient anti-crisis policies as half of Belarus' hard currency reserves are in weakening Russian rubles and Belarus' export flows to Russia are slowing down. In the meantime, Russia's Vice Premier and Finance Minister Alexei Kudrin announced October 21 that his government would issue a USD 2 billion loan to Belarus later this year. Kudrin's Deputy Dmitriy Pankin added October 27 that the loan agreement would include provisions on currency exchange rate, privatization in Belarus, access of Russian businesses to Belarusian markets, and Belarus' balance of payments.

17. (SBU) Furthermore, the GOB approached the International Monetary Fund (IMF) earlier this month with a request to provide USD 2 billion in financial assistance. An IMF mission is currently in Minsk to hold talks with the authorities; post has requested a meeting but has not yet been able to secure one. Belarus' National Bank officials claim the country has no crisis-related problems and need IMF assistance to prevent such problems only. They also admitted the GOB had approached central and private banks in some unnamed countries to the same end, commercial loans -- without conditionality -- being preferable to IFI assistance.

18. (U) The GOB has taken other rhetorical steps to keep the crisis at bay. On October 17, Lukashenka instructed National Bank Chairman Pyotr Prokopovich to draft promptly a decree allowing unlimited and undeclared deposits in Belarusian banks by foreign citizens and guaranteeing all deposits regardless of their size. Lukashenko also required that regulations be drafted urgently to allow launching Belarus onto the list of the world's top thirty economies based on securing the most favorable loan conditions.

Comment

VILNIUS 00000928 002 OF 002

19. (SBU) We agree with independent experts that it is just a question of time before severe effects are felt here. We have been told anecdotally that the GOB's own economists have already recognized that there is no escape from IFI conditionality and/or comprehensive changes that will be badly received by the Belarusian people, such as the devaluation of the BYR or the reduction of the salaries at state-owned enterprises (which constitute about three-fourths of the economy and employ a similar proportion of the work force). However, it is entirely unclear whether the country's political leadership -- which has for years trumpeted its supposed "economic miracle", based on formerly subsidized Russian energy supplies -- is prepared to take the necessary steps.

MOORE
LEADER